

## Fiscal Impact Analysis:

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## Penguin Hall Age-Restricted Housing Development

April 25, 2012

Prepared for the Wenham Planning Board

Community Opportunities Group, Inc.  
Boston, Massachusetts

## SUMMARY

### Snapshot: fiscal impact analysis

The Wenham Planning Board has requested a fiscal impact analysis of a proposal for age-restricted housing at the historic Penguin Hall property on Essex Street. Toward that end, Community Opportunities Group, Inc. (COG) has reviewed the project plans, assembled and analyzed demographic, market, and municipal finance data, and estimated the potential revenue and cost of services associated with age-restricted housing in this location. In our opinion, the Town stands to benefit significantly from the planned redevelopment of Penguin Hall. At completion, the project will most likely result in the following outcomes:

Penguin Hall Senior Housing Development: Net Revenue at Buildout			
Municipal Service Costs Allocable to Proposed Development	Phase I (150 Units)	Phase II (88 Units)	Total (238 Units)
General Government	\$45,000	\$26,000	\$71,000
Public Safety	\$174,000	\$102,000	\$276,000
Public Works	\$28,000	\$17,000	\$45,000
Human Services	\$6,000	\$4,000	\$10,000
Culture & Recreation	\$37,000	\$22,000	\$59,000
Debt Service	\$20,000	\$12,000	\$32,000
Fixed Costs	\$46,000	\$27,000	\$73,000
Total	\$356,000	\$210,000	\$566,000
Own-Source Revenue Generated by Proposed Development			
Property Taxes	\$1,410,000	\$973,000	\$2,383,000
Excise Taxes	\$18,900	\$11,100	\$30,000
Total	\$1,428,900	\$984,100	\$2,413,000
Revenue Ratio	0.249	0.213	0.235
Net Revenue	\$1,072,900	\$774,100	\$1,847,000
Community Opportunities Group, Inc. Note: (1) Numbers may not total due to rounding; (2) Table in 2011 dollars; (3) Net Revenue does not account for the property taxes Mullen already pays to the Town each year (approximately \$155,000).			

### Basis for net revenue estimate

*Net revenue* is the local revenue generated by a development minus the community's cost to provide services to the development's residents or businesses. The estimated net revenue for Wise Living's project at Penguin Hall is approximately \$1.1 million for Phase 1. In revenue ratio terms: for every \$1.00 the project generates in revenue, the Town will spend about 25 cents to provide municipal services to the residents at Penguin Hall. Should Phase 2 materialize, the project's fiscal

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impact will be approximately \$1.8 million and, for every \$1.00 of revenue, the Town will spend about 24 cents to serve Penguin Hall's population. Of course, these figures exaggerate the revenue growth that will ensue from Wise Living's project because Penguin Hall already provides about \$155,000 per year in real estate taxes. Still, Phase I alone will produce more than eight times the amount of tax revenue generated by Penguin Hall today, or an adjusted net revenue of \$918,000 (rounded).

All estimates in this report are expressed in 2011 dollars. Together, the estimates reflect several assumptions:

- *Average housing sales prices:* Phase 1, \$595,000; Phase 2, \$700,000.
- *Assessed value:* 92 percent of estimated average housing sale price (assessment ratio = 0.92).
- *Tax rate:* \$17.17 (Wenham FY 2011)
- *Construction and occupancy:* 2 years Phase I; 4 years Phase II.
- *Service cost estimates:* average cost per capita for municipal services in Wenham, FY 2002-2011, converted to 2011 constant dollars; and adjusted for marginal cost impacts based on Penguin Hall's resident population.
- *Town departments most affected by the proposed development:* Police, Fire, General Government (Assessing), and to a lesser extent, Human Services, Culture and Recreation, and Public Works.
- *Average household size:* 1.42 people (average age: 70+ years).
- *Average vehicles per household:* 0.90.

### **Why Fiscal Year 2011?**

Fiscal impact studies rely on known conditions – such as recent revenue and expenditure trends and a community's demographic characteristics – to predict the “unknown” outcome of a future land use change. Fiscal Year 2011 (July 1, 2010 – June 30, 2011) is the most recent year for which actual full-year expenditures and revenue are available for Wenham or any other town in the Commonwealth, so FY 2011 is the starting point for this analysis. However, a fiscal impact analysis should never be based on a single year's experience, so for this study, COG analyzed ten-year revenue and expenditure trends in Wenham, converted the data to constant 2011 dollars per capita, and used the average annual change over ten years as a future cost multiplier. Some costs were further refined based on assumed household characteristics.

### **Impact of affordable housing units**

Wenham's Zoning Bylaw contains an inclusionary housing requirement (Section 12.5.10) and the Penguin Hall project will have to comply with it. Specifically, the developer must provide

affordable units equal to 15 percent of the total number of units in the development. Wise Living has opted to create the units off-site, i.e., elsewhere in Wenham. Under the terms and conditions of a Development Agreement between the Wenham Board of Selectmen and Wise Living, all of the affordable units will have to “count” toward the Town’s 10 percent minimum under Chapter 40B. To comply with the Zoning Bylaw and the provisions of the Development Agreement, Wise Living plans to build rental units because if at least 25 percent are affordable, the Commonwealth will “count” all of the units on Wenham’s Chapter 40B Subsidized Housing Inventory.

The Development Agreement places some additional requirements on the Penguin Hall project. For example, Wise Living must adhere to a very prescriptive production schedule for the affordable units, e.g., having a comprehensive permit in hand before obtaining certificates of occupancy for more than 100 age-restricted units at Penguin Hall, and having certificates of occupancy for all of the affordable units before obtaining more than 150 certificates of occupancy for age-restricted units. (Fifteen percent of the number of Phase I units at Penguin Hall is twenty-seven units).

COG has been asked to consider the fiscal impact of the affordable units as part of analyzing the impact of the Penguin Hall senior housing compound. As a rule, it is very unusual to assign the fiscal impact of local bylaws and regulations to a specific private development, especially a bylaw that involves mandates over which the developer has no control. Moreover, analyzing the fiscal impact of affordable housing requires information that does not readily exist for Penguin Hall: what kinds of units (size), their off-site location(s), if they will be age restricted, if all or just 25 percent of the units will be affordable, if the affordable housing will be owned and managed for some type of charitable (tax-exempt) purpose, and so on. The impact of twenty-seven affordable rental units could range from -\$3,900 per unit (negative net revenue) to \$450 per unit (surplus revenue). Under a plausible worst-case scenario, the fiscal impact of twenty-seven affordable rental units would reduce the Penguin Hall “surplus” from \$918,000 to \$862,000. It is important to point out that the increased cost of community services will be partially offset by additional tax revenue from the rental development.

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## BACKGROUND

The Wenham Planning Board has requested a fiscal impact analysis of a proposed age-restricted housing development at the historic Penguin Hall property on Essex Street. Penguin Hall has supported several uses since it was built ca. 1929. Originally the estate of Ruby Boyer Miller, Penguin Hall served as a retirement home and a corporate conference center before becoming the headquarters of Mullen Advertising in 1987. When the Mullen company moved to Boston about five years ago, the property owner – James Mullen – began to seek marketable opportunities to preserve and reuse the estate. Plans for a continuing care retirement center fell apart due to the nation's weak economy, causing Mullen to investigate other options. He eventually formed a partnership with Wise Living, developer of several prestigious age-restricted properties on Cape Cod.

Wise Living's proposal in Wenham calls for 238 age-restricted housing units to be constructed in two phases. The first phase (and the focus of the present study) includes new construction of interconnected buildings with a combined total of 150 one- and two-bedroom units, along with capital improvements to Penguin Hall, which will house the development's amenities. Since Phase 1 is designed to stand alone in the event that Phase 2 never materializes, all of the amenities required to market the site to "active adult" buyers of higher-end housing will be created during the Phase 1 construction process. Phase 2 would bring an additional eighty-three units in three spacious manor buildings arranged elsewhere on the 50-acre site.

Converting the Penguin Hall property to age-restricted housing requires amendments to the Town of Wenham Zoning Bylaw and Zoning Map. These amendments will be presented to voters at the May 2012 Annual Town Meeting. In addition, the Town has been negotiating a mitigation agreement with Wise Living. Through this agreement, the Planning Board has imposed certain requirements relative to the developer's affordable housing obligations under Section 12.5.10 of the Wenham Zoning Bylaw. Specifically, Wise Living would not be allowed to build more than 150 age-restricted units on Essex Street unless the Town has issued certificates of occupancy for all of the affordable rental units (15 percent of the number of Phase I units at Penguin Hall, or 27 units). Other requirements apply as well.<sup>1</sup>

### Understanding "fiscal impact"

The term fiscal impact refers to the relationship between the amount of revenue generated by a given land use and its associated community service costs. The relationship is expressed as a ratio of municipal and school service costs to revenue, known simply as a "cost-revenue ratio." A land use qualifies as "revenue positive" if it generates more revenue than the cost of the demands it places on municipal and school services, i.e., a low cost-revenue ratio. A "revenue neutral" land use represents the break-even point, and a "revenue negative" land use costs more in community services than the amount of revenue it produces. In our experience, five factors tend to influence the net fiscal impact of new growth:

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<sup>1</sup> Draft Development Agreement, Town of Wenham and James X. Mullen, 4 April 2012.

- The population changes associated with a particular land use;
- Rate of new growth;
- Location of new growth;
- The existing land use pattern in the receiving city or town; and
- The existing fiscal condition of the receiving city or town.

### Models and assumptions

Since local governments depend on property taxes to finance municipal and school services, fiscal impact studies have become a popular tool for development review. However, fiscal impact analysis is not confined to a single “tool” because practitioners have several models or methodologies from which to choose. A model is an organized, systematic way of analyzing data, making inferences and drawing conclusions. All of the prevailing fiscal impact models have been field-tested and reviewed by academic and practicing peers, and from time to time new field tests lead to updated assumptions. For example, many of the demographic assumptions used by fiscal impact analysts thirty years ago have been modified to reflect national changes in household sizes and types.

Fiscal impact analysis focuses on General Fund revenue because the question ultimately addressed by any of these studies is whether a land use will have a positive or negative impact on the tax rate. To answer that question, a fiscal impact analyst has to rely on known factors – historic revenue and expenditure trends, existing conditions, and the demographic characteristics of a community – to predict the “unknown” outcome of a future land use change. On this note, most of the prevailing fiscal impact models share some common ingredients. For example:

- Near-term community service expenditures per capita may be used to forecast changes in spending as the local population grows *if* today’s average cost per capita is adjusted to simulate the impacts of large and small amounts of new growth. A significant amount of population and household growth in a short period is more likely to cause accelerated growth in service costs. By contrast, a low or stable rate of population growth usually triggers little change in the overall rate of growth in service, measured on a per capita basis.
- Nearly all fiscal impact models assume that for a given nonresidential land use, the ratio of a development’s assessed value to aggregate value of properties in the same use class (two “knowns”) can be used to estimate the same development’s proportional share of total community service costs (an “unknown”).

### Limitations

Fiscal impact studies have limitations and for a variety of reasons, they should be used with caution. While fiscal impact estimates can help communities plan for change, they should not be

the sole basis – or even the primary basis – for major public policy decisions. In our experience, the following conditions tend to affect the accuracy and utility of fiscal impact studies:

- No fiscal impact model adequately accounts for a municipality's fiscal condition, yet the real impacts of a project are largely determined by context: the demographic, economic and fiscal characteristics of the receiving community.
- Not all local government costs change as a direct result of population growth, and some costs change in the absence of population growth – such as health insurance costs for municipal employees, energy costs for public buildings, and fuel costs for public safety and public works.
- Revenue ratio studies rely on present costs and revenues to describe the fiscal outcome of a development that is not yet built. However, changes in the economy, federalism, public policy, population demographics and technology result in a fluctuating fiscal position for most land uses.
- In isolation, cost-revenue ratios convey an incomplete picture of a development's fiscal outcome. A land use may seem advantageous because it produces a positive cost-to-revenue ratio, but the amount surplus revenue it generates (in dollars) may be strikingly low. In our experience, this kind of outcome is usually associated with low-intensity land uses, particularly low-intensity commercial uses.

## PENGUIN HALL DEVELOPMENT

### Approach and methodology

We began by preparing a Cost of Community Services (COCS) analysis, following a modified version of an approach developed by the American Farmlands Trust several years ago. We concluded that under existing conditions in Wenham today, the Town's cost to serve residential land uses is about \$1.18 for every \$1.00 in residential revenue (primarily real estate and motor vehicle excise taxes). This is similar to the midpoint of the statistics in a national COCS database maintained by the American Farmlands Trust. It also is fairly consistent with what we have found in other non-urban, predominantly residential communities with low to moderate growth rates elsewhere in Massachusetts.

The COCS is useful for taking a snapshot of existing fiscal conditions, but it was not designed to support a fiscal impact analysis of new growth. For this type of work, we consult the literature of the field and our own databases for guidance, the former being nationwide and the latter, Massachusetts-based. Our firm has prepared an average of five fiscal impact studies per year over the past ten years; for projects that we analyzed at the permitting stage, we have monitored a sample of the developments at post-completion and occupancy in an effort to test and refine our assumptions. Local aid is always the most difficult revenue source to estimate over time, mainly due to fluctuations in the economy and changes in state policy, the latter invariably coinciding with changes in administration. On balance, however, our demographic projections, residential service

costs, and residential revenue estimates have been gratifyingly close to real-time outcomes. For studies conducted at a very early stage in the development process, which is the situation for Penguin Hall, we typically take the following steps:

- *Expenditure trends.* Develop a snapshot of expenditures per capita over ten years, convert the data to constant dollars, and evaluate the annual rate of change in inflation-adjusted dollars for each major category of municipal services. For large, multi-year phased developments, the ratios may be used to adjust the average cost of services per person.
- *Local knowledge.* Consult with Town staff about the existing capacity of their departments, the adequacy of equipment and personnel to accommodate new growth, and reasonable needs that can be foreseen today. (We met with several department heads on March 9, 2012.)
- *Marginal cost.* For services that will absorb a substantial share of new demands for town services, and for services that already operate with insufficient capacity, adjust the existing average cost per person with marginal cost coefficients.

Town of Wenham: Expenditures Per Capita			
Category of Service	FY11 Cost Per Capita (Rounded)	Avg. Annual Change, FY02-11, Adjusted for Inflation	Population Cost Multipliers (Senior Housing)
General Government	\$168	1.01	1.15
Police	\$196	1.01	1.45
Fire	\$102	.98	1.80
Other Public Safety	\$43	.83	0.50
Education	\$1,615	1.23	0.00
Public Works	\$190	.96	0.50
Human Services	\$23	1.01	1.00
Culture & Recreation	\$152	1.04	0.70
Debt Service	\$130	1.02	0.80
Fixed Costs	\$196	1.25	1.05
Intergovernmental	\$28		0.00
Other Expenditures	\$8		0.00
<b>Total Expenditures</b>	<b>\$2,851</b>		
Sources: Dept. of Revenue, Community Opportunities Group, Inc.			

- *Property values and taxes.* Estimate the assessed value of the property – in this case, the proposed housing units – and estimate the construction timeline. For a relatively short construction window, e.g., two years, it is not necessary (though it may be desirable) to adjust costs and revenues for inflation. Longer-term construction should be adjusted if the information exists to make a reliable forecast.

Wenham is a small residential suburb and a \$16 million corporation. Its current population of 4,875 represents a <10 percent increase from 2000 to 2010, so while the town is growing, its growth rate is fairly stable. On one level, Wenham has a traditional New England town government with a board of selectmen and several other elected boards, many appointed committees, and a relatively small town hall staff. It also has a call fire department. This, coupled with its small municipal workforce, contributes to the Town's near-term history of moderately low spending per capita on *municipal* services. On another level, however, Wenham is unusual for the degree to which it shares local government responsibilities with neighboring Hamilton: a K-12 regional school district, a shared public library, a recreation department that serves both towns, and so on. Wenham has other noteworthy features, too, such as the presence of a small college, which is close to the Penguin Hall property.

A relatively affluent, family-oriented community, Wenham has high property values and a stable financial profile, and the town seems committed to supporting a high quality of life for its residents. For example, Wenham is a Community Preservation Act (CPA) town, which suggests that voters have been willing to pay more for the public benefits of open space, housing affordability, and historic preservation. According to the Department of Revenue, real and personal property taxes comprise some 78 percent of all annual revenues in Wenham. The tax levy is obviously crucial to the town's well-being, so town government's interest in the fiscal impact of Wise Living's proposal makes sense.

### **What do we know about age-restricted housing?**

In the Boston area, the over-55 housing market is largely saturated. Aside from relentless weakness in the condominium market, age-restricted units have become increasingly difficult to finance: there is simply an over-supply in many parts of the region. A decade ago when the regional housing market was still robust, communities often insisted – and developers willingly agreed – that new housing should be designed to discourage if not prohibit families with children. Backed by the legal authority of the Housing for Older Persons Act of 1995 (HOPA), communities embraced zoning favorable to age-restricted developments and the pipeline quickly increased. Many comprehensive permit developments were approved with age restrictions, too.

Penguin Hall has the potential to secure financing where many similar projects would find it difficult (if not impossible). The property itself is unique, and its unique characteristics fit well with the preferences of upper-income households that want to live in an age-restricted development. Its Wenham location helps as well. Furthermore, Wise Living is an experienced developer of independent living residences, especially in higher-end communities such as those on Cape Cod where the company already has several pricy, spacious, attractive developments for so-called over-55 or “active adult” people. Despite its identity as “over-55” housing, Penguin Hall will have very few residents in their mid-fifties. In fact, most “over-55” developments cater to an older population – retirees looking to downsize and leave property maintenance in the hands of someone else. The wealthiest segments of the market expect roomy housing units with high-end finishes and fixtures, full on-site amenities and conveniences, on-site management and maintenance staff, and privacy. In order to attract that market, Penguin Hall has to position itself to compete.

If the project succeeds, Wenham stands to benefit from a significant increase in property tax revenue with a strikingly few demands on municipal services. At buildout, the Phase I component – 150 units – will comfortably generate about \$1.4 million per year in property taxes (in 2011 dollars). By contrast, the Town’s cost to serve the development will be approximately \$356,000. We believe this estimate overstates the project’s actual cost to the Town, but we have opted to be conservative in our approach. After excluding what the owner currently pays in property taxes each year, the Penguin Hall project will provide almost \$1 million in additional tax revenue to the Town on a recurring basis. For Phases I and II, the overall gain –after excluding the existing tax revenue – is approximately \$1.6 million per year.

One of the challenges for Wenham will be to allocate *some* of the revenue increase to departments that actually experience growth in demand for services. Arguably, an increase of 150 (or 238) new housing units is significant, and they will not be entirely inconspicuous. While age-restricted housing does not generate school-age children, it does generate more public safety calls per household than the community-wide average, and Wenham is no exception. Most of the public safety calls from senior citizens involve medical emergencies. While Wenham’s police and fire departments respond to all such calls, they do not realize any income from ambulance receipts because a private ambulance company provides emergency medical transport. Almost half of the projected service cost increases associated with Penguin Hall are based on anticipated demands for public safety response.

## Issues

### AFFORDABLE HOUSING

Wenham is trying to address the Chapter 40B consequences of a significant increase in market-rate housing. Through inclusionary zoning, the Town hopes to reduce the risk of unwanted comprehensive permits by ensuring that new development provides affordable housing that will count on the Chapter 40B Subsidized Housing Inventory. Accordingly, Wise Living will be required to provide a 15 percent affordable housing benefit somewhere in Wenham, and the developer has indicated a preference for doing so on a site other than Penguin Hall. The Development Agreement places demanding requirements on the project in order to “guarantee” that the affordable units will actually be built, sold or rented, and occupied.

Unfortunately, the Town’s noble efforts to meet local housing needs could backfire in the form of making Penguin Hall an unbankable project. Given the credit conditions that exist in housing finance today, it is difficult to imagine a bank approving a construction loan for a project with so many contingencies. For example, the Development Agreement<sup>2</sup> requires Wise Living to obtain a comprehensive permit from the Board of Appeals before the Building Inspector can issue certificates of occupancy for more than 100 market-rate units at Penguin Hall. In effect, this means the developer has to secure another site, obtain additional development approvals, and face the prospect of additional appeals in order to complete Penguin Hall Phase I. From a lender’s perspective, that may be an unacceptable level of risk. In addition, placing a “hold” on Phase II until

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<sup>2</sup> Refers to draft Development Agreement dated April 4, 2012.

all of the affordable units have certificates of occupancy may have the effect of freezing Penguin Hall at 150 units (Phase I), yet the highest-value homes occur in Phase II.

If Wenham wants Penguin Hall to go forward, the Town should consult with some lending institutions that finance housing development and verify that the project will not be made unbankable by the affordable housing conditions in the Development Agreement.

#### **FISCAL IMPACT OF AFFORDABLE UNITS**

The Planning Board has expressed concerns about the fiscal impact of the affordable units that Wise Living is required to provide under the Wenham Zoning Bylaw and the Development Agreement. We have been asked to comment on the extent to which the affordable units might reduce Penguin Hall's revenue benefits. Until there is an actual development to review, estimating the fiscal impact of affordable units now is highly speculative and not recommended. However, respecting the Planning Board's concerns and recognizing that others may have the same question, we offer the following comments.

There are trade-offs the Town should be aware of (and may already realize) between affordable housing and fiscal impact. Although a development with 100 percent affordable units serves more moderate-income households than a mixed-income development, it also generates much less tax revenue. In a typical homeownership development in an upper-income Boston suburb, the market-rate units might sell for \$450,000 or more, but the affordable units will be capped at \$180,000-\$200,000 depending on condominium fees, the buyer's downpayment resources, and so forth. If Wise Living built twenty-seven affordable condominiums instead of twenty-seven mixed-income for-sale units, the tax revenue difference would be dramatic: \$177,000 vs. \$83,000. The units would have to be made available to the general public, i.e., without age restrictions,<sup>3</sup> so the community service costs would be much higher on a unit-by-unit basis than the costs described above for Penguin Hall.

The Mullen/Wise Living team have indicated their intention to build rental housing, which makes sense in today's housing market. Rental units would benefit the Town because all will count on the Subsidized Housing Inventory as long as 25 percent are affordable. Here again, the Town faces some trade-offs. It is very difficult for rental housing – even high-end rental housing – to be revenue positive. The issue has little to do with community service costs and everything to do with assessed value. Rental housing is assessed on an income basis, not comparable sales. In the Boston area, the average tax revenue for rental housing ranges from \$1,600 to \$1,700 per unit. We have seen these figures a bit higher in some exceptionally high-end suburbs along Route 128 west of Boston. However, Wenham should not expect that market-rate rental units will command the same very high rents that people will pay to live closer to Boston. Of course, the market-rate rents drive the

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<sup>3</sup> It is extremely difficult to obtain financing for affordable age-restricted units. State policy favors housing for families. In addition, many comprehensive permits that were granted with age restrictions have not gone forward because of market saturation and other factors. The age restrictions have been lifted or the projects were abandoned.

assessed value up or down for the project as a whole. Using the regional average as a guide, a 27-unit mixed-income rental development might pay about \$46,000 for property taxes.

At issue is whether a 27-unit rental development (or 36 units for Phases I and II combined) is even feasible. It may be feasible if the project is designed to qualify for low-income housing tax credits or carried out as a HUD 202 project by a non-profit developer, but the property tax revenue will be reduced. It seems that Wenham needs to decide whether it wants affordable housing or projects that “pay their own way” because it may not be possible to have both.